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PUBLIC VERSION

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Subject: **State aid SA.64602 (2021/N) – Cyprus
COVID-19: Support for the wine sector due to the impact of restrictive
measures implemented because of the Covid 19 pandemic**

Excellency,

1. PROCEDURE

- (1) By electronic notification of 28 August, Cyprus notified aid in the form of limited amounts of aid (Support for the wine sector due to the impact of restrictive measures implemented because of the Covid 19 pandemic, “the measure”) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, as amended (“the Temporary Framework”)¹. The Cypriot authorities sent additional information on 10 September 2021.
- (2) Cyprus exceptionally agrees to waive its rights deriving from Article 342 of the Treaty on the Functioning of the European Union (“TFEU”), in conjunction with Article 3 of Regulation 1/1958², and to have this Decision adopted and notified in English.

¹ Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, (OJ C 91I, 20.3.2020, p. 1), as amended by Commission Communications C(2020) 2215 (OJ C 112I, 4.4.2020, p. 1), C(2020) 3156 (OJ C 164, 13.5.2020, p. 3), C(2020) 4509 (OJ C 218, 2.7.2020, p. 3), C(2020) 7127 (OJ C 340I, 13.10.2020, p. 1) and C(2021) 564 (OJ C 34, 1.2.2021, p. 6).

² Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

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2. DESCRIPTION OF THE MEASURE

- (3) Cyprus considers that the COVID-19 outbreak affects the real economy. The measure forms part of an overall package of measures and aims to ensure that sufficient liquidity remains available in the market, to counter the liquidity shortage faced by undertakings because of the outbreak, to ensure that the disruptions caused by the outbreak do not undermine the viability of the undertakings and thereby to preserve the continuity of economic activity during and after the outbreak.
- (4) Cyprus confirms that the aid under the measure is not conditioned on the relocation of a production activity or of another activity of the beneficiary from another country within the EEA to the territory of the Member State granting the aid. This is irrespective of the number of job losses actually occurred in the initial establishment of the beneficiary in the EEA.
- (5) The compatibility assessment of the measure is based on Article 107(3)(b) TFEU, as interpreted by Sections 2 and 3.1 of the Temporary Framework.

2.1. Nature and form of aid

- (6) The measure provides aid in the form of direct grants.

2.2. National legal basis

- (7) The legal basis is the Ministerial Decision of 31 July 2021 laying down a support measure for the wine sector due to the impact of restrictive measures implemented because of the COVID-19 pandemic.

2.3. Administration of the measure

- (8) The Agricultural Department of the Ministry of Agriculture, Rural Development and Environment is responsible for administering the measure and granting aid.

2.4. Budget and duration of the measure

- (9) The estimated budget of the measure is EUR 900 000.
- (10) Aid may be granted under the measure as from the notification of the Commission's approval until no later than 31 December 2021. Applications must be submitted by 8 November 2021.
- (11) The Cypriot authorities confirmed that the measure is not co-financed by the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), the European Union Solidarity Fund (EUSF), as amended by the Coronavirus Response Investment Initiative regulations.

2.5. Beneficiaries

- (12) The beneficiaries are undertakings (natural or legal persons) of all sizes active in the wine sector. The number of beneficiaries is estimated at less than 10. Financial institutions are excluded as eligible final beneficiaries.

- (13) Aid may not be granted under the measure to undertakings that were already in difficulty within the meaning of the Block Exemption Regulations³ on 31 December 2019, nor to undertakings against whom a decision by the European Commission to recover incompatible State aid is pending.

2.6. Sectoral and regional scope of the measure

- (14) The measure is open to the agricultural (wine) sector, as described in recital (12). It applies to the territory of Cyprus in which control is exercised by the State.

2.7. Basic elements of the measure

- (15) As part of the effort to limit the spread of COVID-19, the Council of Ministers took drastic restrictive measures, including the suspension of restaurants and tourist accommodation, the suspension of flights and bans aimed at social distancing. These measures, together with bans aimed at social distancing, have had a very significant impact on the wine sector, as consumption and thus demand for wine have been drastically reduced. The reduction in demand means that large mainly wine making enterprises have accumulated large quantities of unsold wines while facing serious liquidity problems. On 31 July 2020, stocks were up to 50 % above standard levels⁴ due to very low demand, and it is estimated that the problem has become even more pronounced in the subsequent months. Some of the quantities of stocks have also deteriorated in quality and have lost some or all of their commercial value, causing further damage to businesses.
- (16) The dramatic increase in stocks has severely reduced the storage areas of wine making enterprises, making it very difficult to produce and store fresh wine from the 2021 harvest. Wine making enterprises are concerned that failure to produce fresh wine for the 2021 harvest, especially for white and rosé wines, will make their products degraded. They consider it necessary to manage stocks, either by finding new storage facilities or even by managing (destruction) a certain quantity of wine in order to enable them to produce wine from the 2021 harvest. The need for stock management entails additional costs for wine making businesses, which they cannot fully bear due to the limited liquidity caused by reduced sales due to COVID-19 pandemic.
- (17) The aim of the measure is to grant financial assistance to operators in the wine sector to help them managing their stocks of wine on 31 July 2021 and of wine produced during this year's harvest, in particular in the period from 1 August 2021 to 31 December 2021.
- (18) The aid amount will be up to EUR 17/hectolitre of wine and/or must⁵ produced during the indicative period of application of the measure, for quantities exceeding 3.000

³ As defined in Article 2(18) of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187 of 26.6.2014, p. 1 and Article 2(14) of Commission Regulation (EU) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 193, 1.7.2014, p. 1.

⁴ According to information provided by the Cypriot authorities, average wine stocks during the period 2016-2019 amounted to around 87 000 hl and reached 135 615 hl (data on 31 July 2020) due to restrictions implemented by the government.

⁵ According to figures provided by the Cypriot authorities, the management of stocks (need to find new storage premises, destructions, energy costs and loss of quality of wines) entails additional costs and income losses of EUR 41.72/hl.

hectolitres (300.000 litres) and less than 25.000 hectolitres. If the budget is exceeded, the aid amount will be reduced in order to limit the budget within the approved amount. All figures will be gross, i.e before any deduction of tax or other charge.

- (19) The aid may not exceed EUR 1 800 000 per beneficiary.
- (20) The aid is conditional on not being partly or entirely passed on to primary producers and is not fixed on the basis of the price or quantity put on the market by the undertakings concerned or purchased from primary producers unless, in the latter case, the products are either not put on the market or are used for non-food purposes such as distillation, methanization or composting by the undertakings concerned.
- (21) In order to be eligible, the beneficiaries must fulfil the following criteria :
- they must have produced more than 10.000 hectolitres of wine and/or must in the 2020 wine year, in accordance with the compulsory ‘Declaration for the production of must and wine’, submitted (up to 15 January 2021) to the Department of Agriculture;
 - they must have had stocks of more than 4.000 hectolitres on 31 July 2020, in accordance with the ‘Declaration of stocks of must and wine’ submitted to the Department of Agriculture.

2.8. Cumulation

- (22) The Cypriot authorities confirmed that aid granted under the measure may be cumulated with *de minimis* aid⁶ and/or with aid under the GBER or ABER provided the provisions and cumulation rules of those regulations are respected.
- (23) The Cypriot authorities confirmed that aid under the notified measure may be cumulated with other forms of Union financing, provided that the maximum aid intensities indicated in the relevant Guidelines or Regulations are respected.
- (24) The Cypriot authorities confirmed that aid granted under the measure may be cumulated with aid granted under other measures approved by the Commission under other sections of the Temporary Framework provided the provisions in those specific sections are respected.
- (25) The Cypriot authorities confirmed that if the beneficiary receives aid on several occasions or in several forms under the measure or aid under other measures approved by the Commission under section 3.1 of the Temporary Framework, the overall maximum cap per undertaking, as set out in points 22(a) and 23(a) of that Framework, will be respected.
- (26) Moreover, where an undertaking is active in several sectors to which different maximum aid amounts apply in accordance with points 22(a) and 23(a) of the Temporary Framework, Cyprus will ensure, by appropriate means such as separation of accounts, that the relevant ceiling is respected for each of those activities and that the overall maximum amount of EUR 1.8 million is not exceeded per undertaking.

⁶ Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid (OJ L 352, 24.12.2013, p.1), and Commission Regulation (EU) No 1408/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid in the agriculture sector (OJ L 352, 24.12.2013 p. 9).

2.9. Monitoring and reporting

- (27) The Cypriot authorities confirmed that they will respect the monitoring and reporting obligations laid down in Section 4 of the Temporary Framework (including the obligation to publish relevant information on each individual aid above EUR 100 000 granted under the measure on the comprehensive State aid website or Commission's IT tool within 12 months from the moment of granting⁷).

3. ASSESSMENT

3.1. Lawfulness of the measure

- (28) By notifying the measure before putting it into effect, the Cypriot authorities have respected their obligations under Article 108(3) TFEU.

3.2. Existence of State aid

- (29) For a measure to be categorised as aid within the meaning of Article 107(1) TFEU, all the conditions set out in that provision must be fulfilled. First, the measure must be imputable to the State and financed through State resources. Second, it must confer an advantage on its recipients. Third, that advantage must be selective in nature. Fourth, the measure must distort or threaten to distort competition and affect trade between Member States.
- (30) The measure is imputable to the State, since it is administered by the Agricultural Department of the Ministry of Agriculture, Rural Development and Environment, as shown in recital (8), and is based on a Ministerial Decision, as shown in recital (7). It is financed through State resources, since it is financed by public funds.
- (31) The measure confers an advantage on its beneficiaries in the form of direct grants, as shown in recital (6). The measure confers on those beneficiaries an advantage, which they would not have had under normal market conditions.
- (32) The advantage granted by the measure is selective, since it will be awarded only to certain undertakings, in particular to undertakings active in a specific production sector, excluding the financial sector, as shown in recital (12), and to undertakings fulfilling certain criteria, as shown in recital 21.
- (33) The measure is liable to distort competition, since it strengthens the competitive position of its beneficiaries. It also affects trade between Member States, since those beneficiaries are active in sectors in which intra-Union trade exists.
- (34) In view of the above, the Commission concludes that the measure constitutes aid within the meaning of Article 107(1) TFEU.

3.3. Compatibility

- (35) Since the measure involves aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether that measure is compatible with the internal market.

⁷ Referring to information required in Annex III GBER and Annex III ABER.

- (36) Pursuant to Article 107(3)(b) TFEU the Commission may declare compatible with the internal market aid “*to remedy a serious disturbance in the economy of a Member State*”.
- (37) By adopting the Temporary Framework on 19 March 2020, the Commission acknowledged (in section 2) that “*the COVID-19 outbreak affects all Member States and that the containment measures taken by Member States impact undertakings*”. The Commission concluded that “*State aid is justified and can be declared compatible with the internal market on the basis of Article 107(3)(b) TFEU, for a limited period, to remedy the liquidity shortage faced by undertakings and ensure that the disruptions caused by the COVID-19 outbreak do not undermine their viability, especially of SMEs*”.
- (38) The measure aims at receiving that compensation at a time when the normal functioning of markets continues to be severely disturbed by the COVID-19 outbreak and that outbreak continues to affect the wider economy and leading to severe disturbances of the real economy of Member States, as shown in recital 16.
- (39) The measure is one of a series of measures conceived at national level by the Cypriot authorities to remedy a serious disturbance in their economy. The measure is important to preserve employment and economic continuity, is widely accepted by economic commentators and the measure is of a scale which can be reasonably anticipated to produce effects across the targeted subsector in Cyprus. Furthermore, the measure has been designed to meet the requirements of a specific category of aid (“*Limited amounts of aid*”) described in section 3.1 of the Temporary Framework.
- (40) The Commission accordingly considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State and meets all the conditions of the Temporary Framework. In particular:
- The aid takes the form of a direct grant, as shown in recital (6).
 - The overall nominal value of the aid does not exceed EUR 1 800 000 per undertaking, all figures must be gross, that is, before any deduction of tax or other charges, as shown in recitals (9), (18) and (19). The measure therefore complies with points 22(a) of the Temporary Framework.
 - Aid is granted under the measure on the basis of a scheme with an estimated budget as indicated in recital (9). The measure therefore complies with point 22(b) of the Temporary Framework.
 - Aid can be granted under the measure to enterprises of all sizes, as shown in recital (12). Aid may not be granted under the measure to enterprises that were already in difficulty on 31 December 2019, as shown in recital (13). The measure therefore complies with point 22(c) of the Temporary Framework.
 - Aid will be granted under the measure no later than 31 December 2021, as shown in recital (10). The measure therefore complies with point 22(d) of the Temporary Framework.
 - The aid is conditional on not being partly or entirely passed on to primary producers and is not fixed on the basis of the price or quantity put on the market by the undertakings concerned or purchased from primary producers unless, in the latter case, the products are either not put on the market or are used for non-food

purposes such as distillation, methanization or composting by the undertakings concerned, as shown in recital 20. The measure therefore complies with point 22(e) of the Temporary Framework.

- Where an undertaking is active in several sectors to which different maximum aid amounts apply in accordance with points 22(a) and 23(a) of the Temporary Framework, Cyprus will ensure, by appropriate means such as separation of accounts, that the relevant ceiling is respected for each of those activities and that the overall maximum amount of EUR 1.8 million is not exceeded per undertaking. Where an undertaking is active in the sectors covered by point 23(a) of the Temporary Framework, the overall maximum amount of EUR 270 000 is not exceeded per undertaking, as shown in recital 26. The measure therefore complies with point 23bis of the Temporary Framework.

(41) The Cypriot authorities confirm that the monitoring and reporting rules laid down in section 4 of the Temporary Framework will be respected, as shown in recital (27). The Cypriot authorities further confirm that the aid under the measure may only be cumulated with other aid, provided the specific provisions in the sections of the Temporary Framework are respected and the cumulation rules of the relevant Regulations are respected, as shown in recitals (22) to (25).

(42) The Commission therefore considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State pursuant to Article 107(3)(b) TFEU since it meets all the relevant conditions of the Temporary Framework.

4. CONCLUSION

The Commission has accordingly decided not to raise objections to the aid on the grounds that it is compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union.

The decision is based on non-confidential information and is therefore published in full on the Internet site: <http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President